

Introduction

Coalitions of students and faculty enrolled in colleges and universities across the U.S. have formed to challenge the inclusion of fossil fuel-related companies within their schools' endowment portfolios. The coalitions are generally affiliated with the Fossil Free Campaign, an organization with the goal of influencing various types of institutions to eliminate investment exposure to fossil fuel companies, commonly referred to as "divestment." Specifically, the group is targeting a list of 200 publicly-traded companies that it has identified as fossil fuel companies having the greatest detrimental effect on the environment.

Slocum has conducted a review of the performance of these 200 stocks, and has analyzed the holdings of the endowment's investment portfolio. This memo presents an overview of the findings and discusses possible approaches to address the coalition's concerns.

Background: Screening the Target Companies

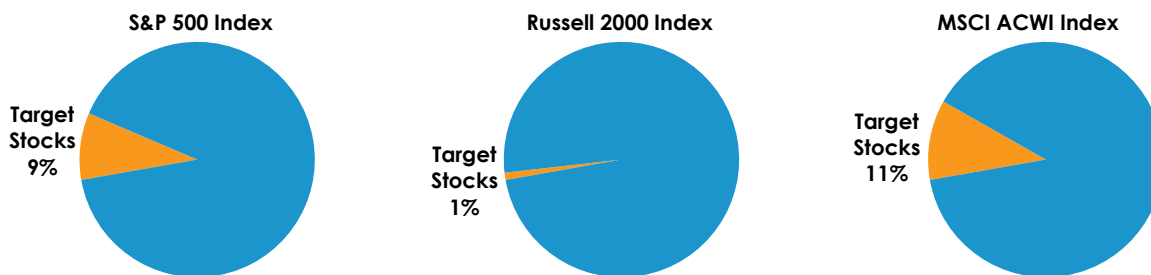
The divestment campaigns have provided names of companies with publicly-traded stocks which the campaigns would like to see divested from investment portfolios. One complicating factor with implementing screens such as this is that many of these companies' stocks trade on multiple exchanges, and with different share classes. Slocum's Global Equity Research Team has compiled all of the individual security identifiers (tickers, CUSIPs, SEDOLs, etc.) in order to analyze the magnitude of these securities within broader benchmarks, and the effect of divestment on historical performance.

Allocation Within Major Indices

The 200 companies that the campaign has targeted for divestment are primarily large capitalization stocks. Excluding those stocks from benchmark-oriented index portfolios would have a different effect depending on whether the index used is U.S. large cap companies, U.S. small cap companies, or global stocks.

The precise allocation to the "Target Stocks" has varied over time, depending on the relative historical performance of those stocks and the broader market environment. Below are statistics indicating the average allocation of these stocks in common benchmark indices over the past three years:

Average Allocation of Target Stocks Past Three Years Through June 30, 2013



The S&P 500 Index is a measure of U.S. large capitalization stocks. The Russell 2000 Index is a measure of U.S. small capitalization stocks. The MSCI ACWI, or All Country World Index, is a measure of global stocks.

Index Performance Without Targeted Stocks

Slocum's Global Equity Research Team deconstructed three commonly-used stock indices, the S&P 500 Index (a measure of U.S. large capitalization stocks), the Russell 2000 Index (a measure of U.S. small capitalization stocks), and the MSCI ACWI (a measure of global stocks, including the U.S.), removing the 200 targeted fossil fuel stocks from all of the indices and performing a total return analysis on the resulting indices without those stocks. Returns excluding the targeted fossil fuels stocks were generated using Factset Research Systems' portfolio attribution application using quarterly calculations.

The table below summarizes the performance difference attributable to the 200 stocks:

Total Return Effect of Removing Fossil Fuel Stocks From Indices

Through June 30, 2013 Returns, %	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Annualized Returns:						
S&P 500 Index	+0.23	+1.21	-0.13	-0.66	-0.53	-0.87
Russell 2000 Index	+0.22	+0.61	-0.13	-0.61	-0.76	-2.40
MSCI ACWI Index	+1.75	+1.49	+0.61	n/a	n/a	n/a
Cumulative Returns:						
S&P 500 Index	+0.71	+6.20	-0.92	-6.37	-7.73	-15.99
Russell 2000 Index	+0.67	+3.09	-0.92	-5.96	-10.83	-38.49
MSCI ACWI Index	+5.33	+7.69	+4.38	n/a	n/a	n/a

Green = excluding fossil fuel stocks resulted in a better index return for the period

Red = excluding fossil fuel stocks resulted in a worse index return for the period

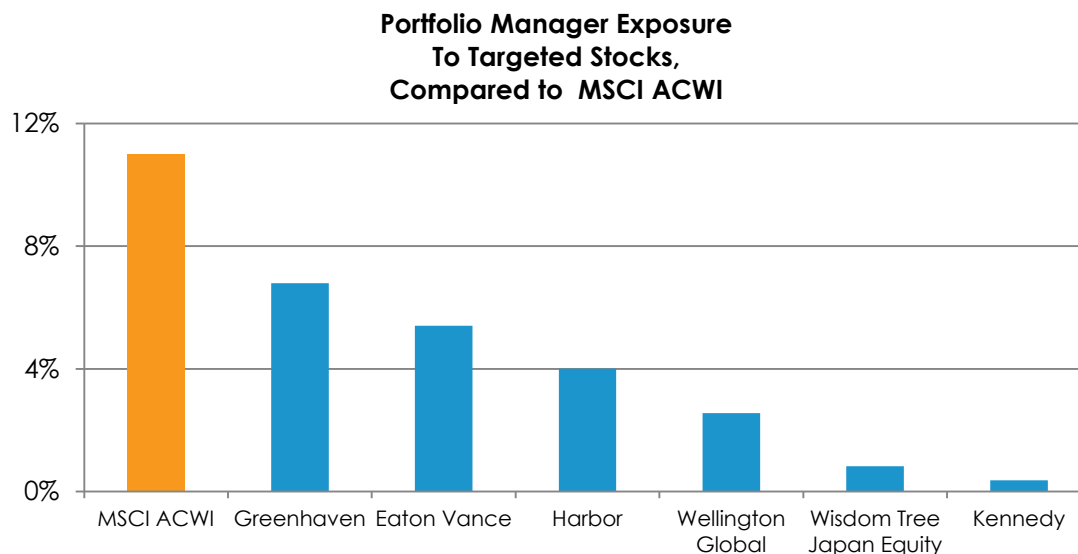
Performance Interpretation

- The effect of excluding the targeted fossil fuel stocks is somewhat dependent on the trends in the price of the fossil fuels themselves (coal, oil, natural gas, and their derivatives).
 - Over long periods, excluding fossil fuel stocks would have reduced the performance** of broad stock indices by less than 1% per year. This is a small amount per year, but on a compounded basis, the cumulative performance drag becomes quite significant.
 - Over shorter periods, three and five years, excluding fossil fuel stocks would have boosted the performance** of index-oriented stock portfolios.
- Looking ahead, a number of factors will affect the future performance of these target stocks relative to the rest of the stock market, especially commodity prices. The future prices of coal, oil, and natural gas will be a determinant of many of these companies' fundamental performance and, therefore, their stock prices. These prices are driven by many factors, all of which are currently changing:
 - Supply dynamics, including the behavior of cartels like OPEC
 - Demand dynamics, including the activity of power producers and vehicle drivers
 - Laws limiting carbon emissions
 - Geopolitical shocks and trends

Pro Forma¹ Exposure Data, as of September 30, 2013

(Public Long-Only Traditional Equity Managers)

The New School's endowment portfolio is currently in the process of being transitioned. The analysis below presents data on the exposure to fossil fuel stocks in the new target equity portfolio. Slocum has analyzed the "pro forma" portfolio's exposure to stocks listed under "List of Exclusions" at <http://gofossilfree.org/resources>.



- The MSCI ACWI (All Country World Index, a measure of global public equity markets), has **11%** exposure to the targeted fossil fuel companies.
- Among the public long-only equity managers, the **Greenhaven** fund has the highest allocation (**6.8%**) to the targeted fossil fuel companies.
 - Greenhaven, a manager with a concentrated portfolio, has exposure only to Devon Energy Corp.
- The pro forma TNS Endowment has exposure to **28 of the 200** fossil fuel companies on the Carbon Tracker Initiative "Carbon Tracker 200" list.
 - The largest single exposure is to **Devon** Energy Corp. (1.5% of Equity / 0.5% of total Endowment), primarily through the manager Greenhaven.
- These 28 companies represent 3.7% of TNS' Equity portfolio or **1.4% of the total Endowment** portfolio.

On the following page, we list TNS' exposure to the 28 companies, in order of exposure size.

¹ Pro forma portfolio represents investment manager changes that have been recommended by Slocum and approved by TNS' Investment Committee. This portfolio has been partially implemented and will be completed over the next several months.

The New School's Pro Forma Exposure to Target Company Stocks, Ranked In Order of Exposure
(Public Long-Only Equity Managers)

Company	% of Public Equity	% of Total Endowment
Devon Energy Corp	1.47%	0.54%
BG Group plc	0.46%	0.17%
CNOOC Limited	0.33%	0.12%
Pioneer Natural Resources Company	0.26%	0.09%
Royal Dutch Shell Plc	0.23%	0.08%
PetroChina Co. Ltd.	0.15%	0.06%
Gazprom	0.12%	0.04%
Inpex Corporation	0.11%	0.04%
Lukoil OAO	0.08%	0.03%
Petroleo Brasileiro	0.07%	0.03%
Sasol Limited	0.07%	0.03%
MOL Hungarian Oil & Gas Plc	0.05%	0.02%
China Petroleum & Chemical Corporation	0.04%	0.01%
Carrizo Oil & Gas, Inc.	0.04%	0.01%
Novatek OAO	0.04%	0.01%
PTT Public Co., Ltd.	0.02%	0.01%
China Shenhua Energy Co. Ltd.	0.02%	0.01%
Rosneft	0.02%	0.01%
Tatneft OAO	0.02%	0.01%
Surgutneftgas OJSC	0.02%	0.01%
Polish Oil & Gas Co.	0.01%	< 0.005%
KunLun Energy Co. Ltd.	0.01%	< 0.005%
China Coal Energy Co. Ltd.	0.01%	< 0.005%
Exxaro Resources Limited	0.01%	< 0.005%
Yanzhou Coal Mining Co. Ltd.	0.01%	< 0.005%
PT Indo Tambangraya Megah Tbk	< 0.005%	< 0.005%
Grupa LOTOS S.A.	< 0.005%	< 0.005%
PT Bumi Resources Tbk	< 0.005%	< 0.005%

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